

Message Text

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ACTION EB-07

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INFO USDEL GENEVA

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TAGS: ETRD, CG

SUBJECT: MULTILATERAL TRADE NEGOTIATIONS (MTN)

REF: STATE 181868

INFO REQUESTED BY REFTEL FOLLOWS:

1. ZAIRE EMERGED FROM ITS COLONIAL PERIOD SOME 15 YEARS AGO WITH A COMPARATIVELY RICH AND DIVERSIFIED ECONOMY. IT RANKED AMONG THE WORLD'S FOREMOST PRODUCERS OF COPPER, COBALT, AND INDUSTRIAL DIAMONDS. ADDITIONALLY IT HAD IMPORTANT RESERVES OF TIN, URANIUM, COLUMBIUM-TANTALUM, EXTENSIVE TROPICAL FORESTS, A VAST HYDRO-ELECTRIC POTENTIAL, SIZABLE TROPICAL PLANTATIONS PRODUCING SUCH EXPORT CROPS AS COFFEE, PALM OIL AND RUBBER. IT ALSO HAD THE BEGINNINGS OF A MANUFACTURING BASE ALONG WITH A COMPARATIVELY WELL TRAINED URBAN LABOR FORCE. UNFORTUNATELY, ITS INDEPENDENCE WAS IMMEDIATELY FOLLOWED BY A SERIES OF MUTINIES, ATTEMPTED

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SECESSIONS ALONG WITH TRIBAL AND IDEOLOGICAL CONFLICTS

WHICH CONTRIBUTED HEAVILY TO THE DETERIORATION OF THE COUNTRY'S INFRASTRUCTURE AND THE DISRUPTION OF THE ECONOMY. NEVERTHELESS, TOWARD THE END OF THE DECADE PRESIDENT MOBUTU WAS ABLE TO REESTABLISH THE AUTHORITY OF THE CENTRAL GOVERNMENT AND THE HERCULEAN TASK OF RE-ORDERING THE ECONOMY BEGAN.

2. AMONG THE MORE DIFFICULT OF THESE TASKS WAS GAINING CONTROL OF THE COUNTRY'S FOREIGN TRADE. BEING AN EXCEEDINGLY LARGE COUNTRY WITH AN ALMOST NON-EXISTENT INTERNAL TRANSPORT SYSTEM, MUCH OF THE COUNTRY'S IMPORT-EXPORT TRADE WAS CARRIED OUT CLANDESTINELY ACROSS NEIGHBORING FRONTIERS. THIS WAS, OF COURSE, ESPECIALLY TRUE FOR SUCH EASILY CONCEALABLE AND TRANSPORTABLE PRODUCTS AS INDUSTRIAL DIAMONDS. THEREFORE, GAINING CONTROL OF THE IMPORT-EXPORT TRADE BECAME AN EARLY TARGET OF THE GOVERNMENT SINCE IT NOT ONLY REPRESENTED AN ASSERTION OF NATIONAL SOVEREIGNTY OVER A SECTOR OF THE ECONOMY ALMOST TOTALLY CONTROLLED BY FOREIGNERS BUT A CONSIDERABLE SOURCE OF REVENUE AS WELL. THIS IN THE WAKE OF THE MONETARY REFORM OF 1967 ZAIRE (THEN KNOWN AS CONGO-LEOPOLDVILLE) COMPLETELY LIBERALIZED THE EXISTING IMPORT-EXPORT CONTROLS WHICH HAD HAD THE EFFECT OF FAVORING THE FORMER METROPOLITAN POWER. ON THE OTHER HAND, CENTRAL BANK CONTROL OF FOREIGN TRANSACTIONS WAS TIGHTENED AND IMPORT-EXPORT TARIFFS WERE INCREASED. ALTHOUGH THESE MEASURES SUCCEEDED IN RAISING ADDITIONAL GOVERNMENT REVENUE AND CONTRIBUTED TO THE STABILIZATION OF THE ECONOMY, THE GOZ WAS UNABLE TO ACHIEVE ALL OF THE INTENDED BENEFITS.

3. FOREIGN TRADE REMAINED ALMOST EXCLUSIVELY IN THE HANDS OF EXPATRIATES AND THE FORMER TRADE PATTERNS PERSISTED. FURTHER, THE TRADERS THROUGH SUCH DEVICES AS UNDER-INVOICING EXPORTS AND OVER-INVOICING IMPORTS AND MAINTAINING FOREIGN BANK ACCOUNTS FOR THEIR PROFITS AND REBATES WERE FRUSTRATING ZAIRIAN EFFORTS TO MAXIMIZE NATIONAL INCOME FROM FOREIGN TRADE.

4. MEANWHILE, THE GOZ, AFTER GETTING OVER ITS FIRST LIMITED OFFICIAL USE

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HURDLE OF STABILIZING THE ECONOMY, BEGAN TO TURN ITS ATTENTION TO DEVELOPMENT. IT CAME TO THE CONCLUSION THAT EXPORT RECEIPTS SHOULD PLAY A MAJOR ROLE IN FINANCING FURTHER DEVELOPMENT. THE GOVERNMENT DECIDED NOT ONLY TO TAKE A FIRMER HAND IN SEEING THAT THE COUNTRY GAINED GREATER BENEFITS FROM THE ONGOING FOREIGN TRADE BUT THAT IT WOULD TAKE AN ACTIVE ROLE IN PROMOTING AND DIVERSIFYING EXPORTS.

5. THUS WITH THE "ORDINANCE-LAW" OF JANUARY 5, 1973, THE GOZ CREATED THE ZAIRIAN FOREIGN TRADE CENTER WHICH HAS SET UP OFFICES IN THE COUNTRIES OF ZAIRE'S PRINCIPAL TRADE PARTNERS TO ENGAGE IN MARKET PROMOTION AND CARRY OUT MARKET STUDIES. THIS WAS AN ATTEMPT TO ESCAPE THE COLONIAL TRADE PATTERN WHEREBY THE GREATER PART OF ZAIRE'S AGRICULTURAL AND MINERAL PRODUCE LITERALLY OR FIGURATIVELY FLOWED FIRST TO BELGIUM AND THEN TO THE USER MARKETS.

6. THEN BY THE "ORDINANCE LAW" OF SEPTEMBER 19, 1973, THE GOZ SOUGHT TO INCREASE THE PACE OF ITS INDUSTRIALIZATION BY RESTRUCTURING THE TARIFF SYSTEM SO AS TO PROMOTE EXPORTS OF MANUFACTURED GOODS. PREVIOUSLY, MANUFACTURED GOODS LEAVING ZAIRE WERE ASSESSED THE SAME EXPORT TAXES AS FOR RAW MATERIALS. FURTHERMORE UNDER THESE MEASURES, IMPORTED RAW MATERIALS WHICH WERE TO BE USED IN PRODUCTS MANUFACTURED FOR RE-EXPORT WERE EXEMPTED FROM THE TURNOVER TAX, ONE OF THE 3 TAXES LEVIED ON MOST IMPORTS.

7 APPARENTLY STILL FRUSTRATED BY THE GOZ'S APPARENT INABILITY TO DIMINISH FOREIGN CONTROL OVER AND/OR BENEFITS FROM ZAIRE'S HIGHLY PROFITABLE FOREIGN TRADE, PRESIDENT MOBUTU THEN ANNOUNCED THE DRACONIAN MEASURES OF 30 NOVEMBER 1973 BY WHICH MOST OF THE LARGER FOREIGN-OWNED BUSINESSES NOT PROTECTED BY THE INVESTMENT CODE OF 1969 WERE TURNED OVER TO ZAIRIAN CONTROL. FOREIGNERS WERE SPECIFICALLY EXCLUDED FROM ENGAGING DIRECTLY IN THE EXPORT-IMPORT TRADE. ALTHOUGH THESE MEASURES SUCCEEDED ONLY TOO WELL IN WIPING OUT MANY OF THE SMALL TRADERS TO AT LEAST THE IMMEDIATE DETRIMENTAL OFFICIAL USE

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MENT OF THE ECONOMY, MOST OF THE HIGHER OFFICIALS OF THE LARGER FIRMS ENGAGED IN IMPORTING AND EXPORTING REMAINED IN PLACE UNDER THE NEW ZAIRIAN LEADERSHIP AND THE TRADE STILL REMAINED IN THE SAME CHANNELS WITH THE PREVIOUS OWNERS PERHAPS EVEN INCREASING THEIR PROFITABILITY THROUGH INTENSIFIED OVER AND UNDER INVOICING AND RAPIDLY INCREASING PRICES IN THE THEN CURRENT BOOM ATMOSPHERE. IN THIS CASE THE NEW ZAIRIAN OWNERS SHARED IN THE PROFITS. THIS HAD THE PERHAPS UNFORSEEN EFFECT OF HELPING CREATE A ZAIRIAN NOUVEAUX-RICHE WHICH IN ITSELF BECAME A SOCIAL AND POLITICAL PROBLEM TO THE MOBUTU GOVERNMENT. COMPETITIVE CONSPICUOUS CONSUMPTION OF THIS RECENTLY ENRICHED GROUP NOT ONLY CONTRIBUTED TO THE INFLATIONARY SPIRAL BUT GENERATED CORRUPTIVE PRESSURES AMONG GOVERNMENT OFFICIALS WHO WERE NOT AMONG THE PRIMARY

BENEFACTORS OF THE NEW WEALTH. (OF COURSE MANY OF THE MORE SENIOR GOVERNMENT AND PARTLY OFFICIALS WERE AMONG THE ORIGINAL RECIPIENTS OF THESE BUSINESSES.) THEREFORE PRESIDENT MOBUTU FOUND HIMSELF CONFRONTED BY THE DILEMMA WHEREBY AN ACTION TAKEN TO CONSOLIDATE HIS POLITICAL AUTHORITY AND SOLIDIFY NATIONAL UNITY WAS ACTUALLY HAVING THE OPPOSITE EFFECT. WITH INCREASING WEALTH SOME OF THESE ZAIRIANS BEGAN TO BE SEEN AS CAPABLE OF FORMING COMPETITIVE POWER CENTERS AROUND THEMSELVES. MEANWHILE, THE MAJORITY OF THE POPULATION FOUND THEIR LOT WORSENERD RATHER THAN IMPROVED AS A RESULT OF THESE MEASURES.

8. UP TO THIS POINT ZAIRIAN TRADE POLICY HAD REMAINED ESSENTIALLY LIBERAL WITH THE PRIMARY INTEREST FOCUSED ON GETTING A LARGER SHARE OF THE BENEFITS IN ZAIRIAN HANDS. SUPPORTED BY THE THEN BUOYANT PRICES FOR ITS RAW MATERIALS. I.E. PRINCIPALLY COPPER, ON THE WORLD MARKET, AND HAVING LAUNCHED SEVERAL LARGE DEVELOPMENT PROJECTS IN COOPERATION WITH PRIVATE FOREIGN ENTERPRISES, PRESIDENT MOBUTU APPARENTLY FELT HE COULD ACHIEVE HIS ECONOMIC OBJECTIVES FOR ZAIRE THROUGH THE BASICALLY WESTERN FREE MARKET MECHANISM. THEN, AS THE LESSON OF OPEC EXAMPLE BEGAN TO SINK IN FOLLOWED BY THE, FOR ZAIRE, DISASTROUS DROP IN COPPER PRICES, BOTH OF WHICH SERVED TO EXHAUST VERY QUICKLY ZAIRE'S ONCE LIMITED OFFICIAL USE

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FAIRLY COMFORTABLE CUSHION OF FOREIGN EXCHANGE, A RE-ORIENTATION OF ECONOMIC POLICY BEGAN TO UNFOLD.

9. PERHAPS IN ANTICIPATION OF THE LOSS IN MOMENTUM TOWARD A SUCCESSFUL FREE MARKET ECONOMY, GOVERNMENT AND MPR (ZAIRE'S SINGLE POLITICAL PARTY) OFFICIALS BEGAN TO TAKE INCREASINGLY CRITICAL POSITIONS TOWARDS WESTERN POLITICAL AND ECONOMIC INSTITUTIONS. THEY MEANWHILE BEGAN TO PRAISE SOCIALIST AND THIRD-WORLD SYSTEMS AS BEING MORE ATTUNED TO ZAIRIAN REALITIES AND NEEDS. THIS PERIOD WAS CLIMAXED BY PRESIDENT MOBUTU'S DECEMBER 1974 VISIT TO NORTH KOREA AND CHINA FROM WHICH HE RETURNED WITH HIS PLANS TO "RADICALIZE" THE REVOLUTION. APPARENTLY WELL IMPRESSED BY WHAT HE SAW AS THE CHINESE AND NORTH KOREAN MODELS OF DEVELOPMENT WITHOUT OUTSIDE HELP. MOBUTU SOUGHT TO INTRODUCE THE COLLECTIVE INTO ZAIRIAN SOCIETY THINLY DISGUISED AS BEING THE TRADITIONAL AFRICAN WAY. WIDE-RANGING ECONOMIC AND

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SOCIAL CHANGES WERE ANNOUNCED WHICH HAD AS THEIR STATED AIM TO WIPE OUT THE FLAWS IN ZAIRIAN SOCIETY THAT HAD DEVELOPED THERE UNDER THE PERMISSIVE CAPITALIST SYSTEM. STATE CONTROL WAS EXTENDED TO COVER EVERY MAJOR ZAIRIAN INSTITUTION WHETHER ECONOMIC OR SOCIAL. IN THE INTERNATIONAL FORA ZAIRE BECAME A LEADING SPOKESMAN OF THE THIRD WORLD COUNTRIES PUSHING FOR PRODUCER CARTELS, REALIGNED TERMS OF TRADE FOR DEVELOPING COUNTRIES AND "A NEW ECONOMIC ORDER". ZAIRIAN GOVERNMENT-CONTROLLED PUBLICATIONS PULLED NO PUNCHES CRITICISING THE INTERNATIONAL FREE MARKET SYSTEM IN IDEOLOGICAL TERMS AS EXPLOITIVE AND COLONIALIST-IMPERIALIST DOMINATE.

10. ZAIRE NOW FINDS ITSELF IN AN ANOMALOUS SITUATION. IT FACES A SERIOUS FINANCIAL CRISIS WITH LITTLE ALTERNATIVE TO SEEKING THE URGENT ASSISTANCE OF ITS MAJOR TRADING PARTNERS. AS WELL AS OF INTERNATIONAL AGENCIES SUCH AS THE IMF AND THE IBRD. ATTEMPTS TO GAIN THIS ASSISTANCE FROM OTHER SOURCES SUCH AS THE OIL-PRODUCING COUNTRIES HAVE NOT BEEN ENTIRELY SUCCESSFUL.

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FUL. WITH REGARD TO ZAIRE-US RELATIONS, CRITICISM OF THE US AND ITS POLICIES REACHED A PEAK DURING THE MONTH OF JUNE IN THE AFTERMATH OF A REPORTED COUP ATTEMPT WHICH THE GOZ CLAIMED HAD SOME US INVOLVEMENT. ALTHOUGH THE US AMBASSADOR TO ZAIRE WAS EXPELLED IN WAKE OF THESE CHARGES, THEY SEEMED TO HAVE HAD MINIMUM CREDIBILITY WITH MOST ZAIRIANS. NOW EVEN THE GOVERNMENT-CONTROLLED PRESS APPEARS TO BE MUTING THEM WHEN THEY ARE REFERRED TO AT ALL.

1. ZAIRE DOES NOT AS YET HAVE AN ELABORATE ORGINIZATION TO CARRY OUT ITS TRADE POLICIES. AS INDICATED ABOVE, THE MAJOR TRADE POLICY IS MADE BY THE OFFICE OF THE PRESIDENT WITH SOME INPUT COMING FROM THE BANK OF ZAIRE, AND THE MINISTRIES OF NATIONAL ECONOMY, COMMERCE AND FINANCE. FOR EXAMPLE, THE OFFICE OF FOREIGN TRADE IS AN AGENCY OF THE PRESIDENCY. DUE TO THE CURRENT FOREIGN EXCHANGE CRUNCH, MOST PRESENT ACTIVITIES OUTSIDE OF THE TARIFF AREA ARE DIRECTED TOWARD MAXIMIZING FOREIGN INCOME FROM EXPORTS AND OBTAINING IMPORTS ON THE BEST TERMS POSSIBLE. THE GOZ HAS CONTINUED TO TIGHTEN CONTROLS ON OVER-INVOICING. THE OFFICE ZAIROISE DUE CONTROL (OZAC) HAS THE AUTHORITY TO INSPECT ALL GOODS BEING SHIPPED TO ZAIRE IN THE ORIGINATING COUNTRIES. IT ASCERTAINS WHETHER THE QUALITY OF THE GOODS IS COMMENSURATE WITH THE PRICE. SECONDLY, THE BANK OF ZAIRE PROMULGATED CIRCULAR 139 IN 1972 WHICH REQUIRED THAT ALL IMPORTS BE SET AT A PRICE 3 PER CENT BELOW THE LOWEST INVOICE PRICE FOR 1971. THIS MEASURE WAS DESIGNED TO OFFSET LARGE MIDDEL-MAN MARKUPS. EARLIER THIS YEAR POTENTIAL EXPORTERS WERE BEING REQUIRED BY THE BANK OF ZAIRE TO GRANT 180 DAYS FREE CREDIT ON EXPORTS TO ZAIRE OR AN IMMEDIATE 6 PER CENT REDUCTION IN PRICE. AT THIS MOMENT, HOWEVER, AS ZAIRE'S FOREIGN EXCHANGE CRISIS WORSENS, SUPPLIER CREDITS TO ZAIRE ARE DRYING UP.

12. SIMILARLY, OZAC EXERCISES CONTROL OVER ZAIRIAN EXPORTS IN ORDER TO CONFIRM THAT PRICES CHARGED ARE IN CONFORMITY WITH THE QUALITY OF THE GOODS BEING EXPORTED. FURTHERMORE, EACH MAJOR AGRICULTURAL PRODUCT IS LIMITED OFFICIAL USE

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ADMINISTERED AND/OR CONTROLLED FROM THE PLANTING TO THE MARKETING STAGE BY A SPECIFIC GOVERNMENT AGENCY FOR THAT PRODUCT. A ZAIRIAN GOVERNMENT AGENCY, SOCIETE ZAIROISE DE COMMEFICALIZATION DES MINERAIS (SOZACOM), WAS SET UP IN THE SUMMER OF 1974 TO TAKE OVER THE

MARKETING OF ALL OF ZAIRE'S MINERAL PRODUCTS. TO DATE, HOWEVER, SOZACOM'S EFFORTS HAVE BEEN ALMOST ENTIRELY CONCENTRATED ON COPPER, AND EVEN THAT PRODUCT IS MAINLY MARKETING BY A BELGIAN FIRM.

13. ZAIRE IS A MEMBER OF CIPEC, THE ORGANIZATION OF COPPER EXPORTING COUNTRIES WHICH HAS BEEN SEEKING TO RAISE THE CURRENT PRICE OF COPPER BY REDUCING THE SUPPLY OF COPPER ON THE WORLD MARKET. THESE EFFORTS HAVE, SO FAR, HAD NO DISCERNABLE EFFECT. NEVERTHELESS, THE GOZ STANDS READY TO ENTER OTHER PRODUCER ORGANIZATIONS AND ACT IN CONCERT WITH OTHER DEVELOPING COUNTRIES TO GET A BETTER DEAL FROM THE INDUSTRIALIZED COUNTRIES FOR THEIR RAW MATERIALS.

14 (A) IMPORT REGULATIONS: IN GENERAL THERE ARE NO RESTRICTIONS ON THE RIGHT TO IMPORT. HOWEVER, AS A RESULT OF THE AFOREMENTIONED 30 NOV 73 MEASURES THIS RIGHT IS EFFECTIVELY LIMITED TO ZAIRIAN CITIZENS. FURTHERMORE THE GOZ RESERVES THE RIGHT TO LIMIT IMPORTS ACCORDING TO THE COUNTRY'S NEEDS AND NATIONAL DEMAND. ALL IMPORTERS MUST HAVE (1) A BANK ACCOUNT IN A CERTIFIED BANK, (2) AN IMPORT REGISTER NUMBER AT THE BANK OF ZAIRE, (3) AN IMPORT LICENSE FOR EACH IMPORT ORDER FROM THE BANK OF ZAIRE. THESE REGULATIONS WERE SET UP SO THAT THE BANK, WHICH HAS THE RESPONSIBILITY FOR MANAGING THE FOREIGN CURRENCY RESERVES OF THE COUNTRY CAN MONITOR CURRENCY FLOWS.

15. IMPORTS ARE SUBJECT TWO TYPES OF TAXES - FISCAL AND CUSTOMS. THE FISCAL TAXES ARE ASSESSED FOR REVENUE PURPOSES AND RANGE FROM 5 TO 50 PERCENT. ON LUXURY ITEMS THEY MAY REACH 180 PERCENT. CUSTOM TAXES, WHICH ARE IMPOSED FOR THE PROTECTION OF LOCAL PRODUCERS, MAY NOT EXCEED 20 PERCENT (UNDER CERTAIN CONDITIONS NEW INVESTORS MAY OBTAIN COMPLETE PROTECTION FOR THEIR PRODUCTS). MORE RECENTLY A TEMPORARY IMPORT SURTAX HAS BEEN IMPOSED FOR BALANCE OF LIMITED OFFICIAL USE

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PAYMENT REASONS. UNDER THIS TAX LUXURY AND LOCALLY PRODUCED ITEMS ARE TAXED AT 20 PERCENT RATE WHILE MOST OTHER GOODS ARE TAXED AT 5 PERCENT.

16. (B) EXPORTS. EXPORT REGULATIONS ARE BASED ON THE PRINCIPLE THAT ONLY THE SURPLUS TO NATIONAL DEMAND MAY BE EXPORTED. HENCE THE MINISTRY OF NATINAL ECONOMY, WHICH KEEPS THE STATISTICAL DATA MUST FIRST CERTIFY THAT ANY PARTICULAR PRODUCT IS EXPORTABLE. AS A GENERAL RULE THE MINISTRY ALLOWS ONLY 70 PERCENT OF ANY EXPORTABEL PRODUCT TO BE EXPORTED. REGARDING FOOD PRODUCTS GENERALLY CONSUMED BY THE ZAIRIAN POPULATION, NO EXPORTATION IS

ALLOWED UNLESS THERE IS A LARGE SURPLUS FOR EXAMPLE, ZAIRE IS A MAJOR WORLD PRODUCER OF PALM OIL. THE EXPORT OF PALM OIL WAS SUSPENDED THIS YEAR BECAUSE OF SHORTAGES OF LOCAL MARKETS. IN GENERAL, AN EXPORTER MUST HAVE (1) A NUMBER ON THE COMMERICAL REGISTER, (2) A BANK ACCOUNT IN A CERTIFIED BANK, (3) AN "EXPORT NUMBER" AT THE BANK OF ZAIRE, (4) AN EXPORT AUTHORIZATION FROM THE MINISTRY OF NATIONAL ECONOMY, (5) AN EXPORT LICENSE FROM THE BANK OF ZAIRE. ADDITIONALLY, EXPORTERS OF MINERAL PRODUCTS MUST HAVE AN AUTHORIZATION SIGNED JOINTLY BY THE MINISTRY OF NATIONAL ECONOMY AND THE MINISTRY OF MINES.

17. IN GENERAL EXPORTS ARE SUBJECTED TO THE FOLLOWING TAXES: (1) A 6.75 PERCENT TURNOVER TAX ON ALL MERCHANDISE EXCEPT COPPER, COBALT DIAMONDS AND URANIUM WHICH ARE TAXED AT 7 PERCENT RATE.

(2) A 1 PERCENT STATISTICAL TAX ON THE FOB VALUE OF THE PRODUCT.

(3) AN EXPORT TAX VARYING FROM 0 TO 10 PERCENT ON THE FAS VALUE OF THE GOLD TO BE EXPORTED.

18. KEY PERSONNEL: TWO INDIVIDUALS HAVE ALMOST THE ENTIRE RESPONSIBILITY FOR SETTING ZAIRIAN MTN POLICY. THEY ARE PRESIDENT MOBUTU AND HIS DIRECTOR OF THE OFFICER OF THE PRESIDENT, BISENGIMANA RWEMA.

19. EMBASSY HAS NO INFORMATION AS YET WHO WILL ATTEND THE MTN. A LIKELY POSSIBILITY IS THAT THE ZAIRIAN DELEGATION WILL BE HEADED BY ZOLA KINKELA, DIRECTOR OF THE LIMITED OFFICIAL USE

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